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annual report 1997

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INTERNATIONAL UTILITY STRUCTURES INC.



Accelerating Our Growth into the Future

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In this annual report, unless the context indicates otherwise, International Utility Structures Inc. and its subsidiaries are collectively referred to as "IUSI" or "the Company".

The acquired company - Petitjean Industries S.A. and its subsidiaries, including Union Metal Corporation in the U.S., and Stainton Metal Company in Great Britain, and subsidiaries in several other countries – are collectively referred to as "Petitjean".

Corporate Profile

International Utility Structures Inc. ("IUSI") is a publicly traded company (ASE – IUS) headquartered in Calgary, Alberta, Canada, with its manufacturing plant in Batesville, Arkansas, U.S.A.

IUSI manufactures and markets round tapered steel electrical distribution, telecommunications and light duty transmission poles, commonly referred to as hydro poles or telephone poles.

IUSI utilizes a proprietary high speed electric resistance welding process to produce high quality steel poles for utilities throughout North America which are superior to traditional chemically-treated wood poles in terms of performance, economics, aesthetics and environmental friendliness. IUSI's poles are also a superior and cost effective alternative to concrete poles which are used predominantly outside North America in the electrical distribution pole market.

IUSI's objective is to establish its steel poles as the "standard" pole for utilities thereby creating a market dominant position which can be translated into increased shareholder value.

On January 30, 1998 IUSI completed a major transaction to acquire Petitjean Industries S.A. headquartered in Troyes, France. Given the size and importance of this transaction, this report is primarily focused on the strategic implications of the acquisition.

Annual Meeting

The Annual General Meeting of Shareholders will be held at 2:00 p.m. on Wednesday, June 24, 1998 in the Bennett Room at the offices of Bennett Jones Verchere, 45th floor, 855 - 2nd Street S.W., Calgary, Alberta. Shareholders and other interested parties are encouraged to attend.

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

Major Event of 1997

Acquisition Announcements by IUSI

October 27, 1997	Agreement to acquire 100% Petitjean Industries S.A.
December 18, 1997	Agreement to finance with a private placement of debt securities in the USA
January 30, 1998	Closing of the private placement and the acquisition of Petitjean Industries S.A.

The Purchase Transaction

On January 30, 1998, IUSI acquired 1,155,939 shares representing approximately 81% of the issued and outstanding shares of Petitjean Industries S.A. for 207 french francs per share or 239.3 million of french francs. The equivalent in U.S. currency was $33.95 per share or US$39.2 million.

As of February 28, 1998, IUSI had acquired 99.76% of the issued and outstanding shares of Petitjean Industries S.A. The remaining shares will be acquired pursuant to a buy-out offer and squeeze-out procedure which is expected to be completed by May 29, 1998.

Profile of the Acquired Company
Petitjean Industries S.A.

- A world leader in manufacturing a full spectrum of metal pole products for overhead lighting, powerline transmission, traffic and telecommunications support structures
- Global distribution network – actively sells in over 100 countries annually
- Has 50 years of reputation for manufacturing high quality engineered products
- Manufacturing plants in France, UK and USA
- Revenues for the year ending September 30, 1997: FF878 million or US$156 million
- ISO 9000 certified

Financing the Acquisition

- Private Placement of Securities in the United States - Total US$95 million
- $75 million of 10.75% Senior Subordinated Notes due February 2008
- $20 million of $1,000 units consisting of:
 - one Senior Exchangeable Preferred Share - $1,000 redemption value
 - one Warrant to purchase 30 common shares of IUSI at CDN$1.98



Europole "Europole Grenoble" – induce "human scale" feeling
by coloured pulses at the base of each lighting pole

IUSI/Petitjean at a Glance

On a combined basis the two companies form one of the world's largest manufacturers of metal overhead lighting, powerline, traffic and telecommunications support structure applications.

Products Manufactured

IUSI manufactures high quality, round tapered steel electrical distribution, telecommunications, and light duty transmission poles, commonly referred to as hydro poles or telephone poles.

Market Focus

IUSI's market focus is to offer a superior performing, lower cost alternative to the wood and concrete distribution and telecommunication poles which have historically dominated the marketplace.

Market Position

Through its unique proprietary technology, IUSI is the first company to offer a steel pole product that, on a lifecycle basis, is significantly more cost effective, better performing and more environmentally friendly than traditional pole products in both North America and overseas markets.

Competitive Advantage

Superior Performance Products

IUSI's steel poles are superior.

- Economics – Lower lifecycle costs, significantly longer life span, recyclable, no disposal costs
- Aesthetics – Superior customized products
- Performance – Superior reliability, safer to use, upgradeable, low maintenance

The Petitjean Group of Companies ("Petitjean") manufactures and sells metal overhead structures for lighting, powerline transmission, traffic and telecommunications infrastructure applications.

Petitjean has a broad spectrum of metal overhead support products including high value added and custom engineered poles and structures which will allow IUSI to be a full service supplier around the world.

Petitjean, and its subsidiaries, Union Metal and Stainton, have a well-established reputation around the world for high quality engineering and design of overhead metal structures that has been developed over the last 50 years.

Superior Performance Products *(continued)*

- Environmentally friendly – solves growing environmental concerns related to chemically-treated wood poles

Proprietary Manufacturing Technology

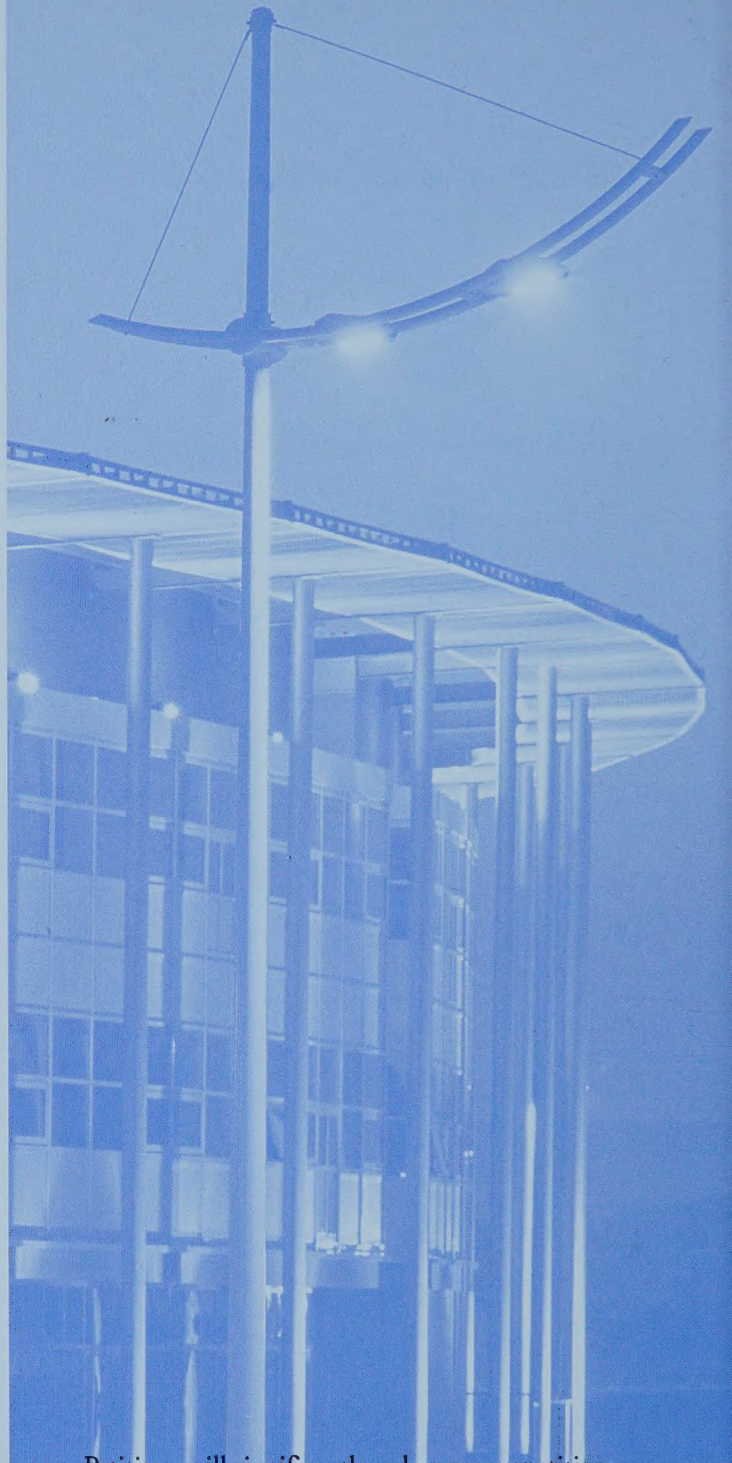
IUSI will enhance Petitjean technology.

- High speed/high volume production line with electric resistance welding which is significantly faster than conventional welding
- Highly automated, low capital cost, "mini-mill" manufacturing process and a small labor force resulting in significant operating leverage
- High capacity – approximately 250,000 poles annually per manufacturing line
- Short lead time capability
- Able to do customized manufacturing to customer specifications

Strong Sales Network in North America

IUSI is a leading steel distribution pole provider in North America.

- Approved supplier for growing number of North American utilities
- Marketing by 6 Regional Sales Managers and approximately 84 agents in the U.S.



Petitjean will significantly enhance competitive advantages of the new organization by providing:

- Full spectrum of overhead structure metal products for all applications
- Extensive manufacturing, design and engineering capacity in Europe and North America
- Instant global distribution network
- A well-established market reputation developed over 50 years

Growth Drivers

Large Global Market for Distribution Poles by Utility Customers

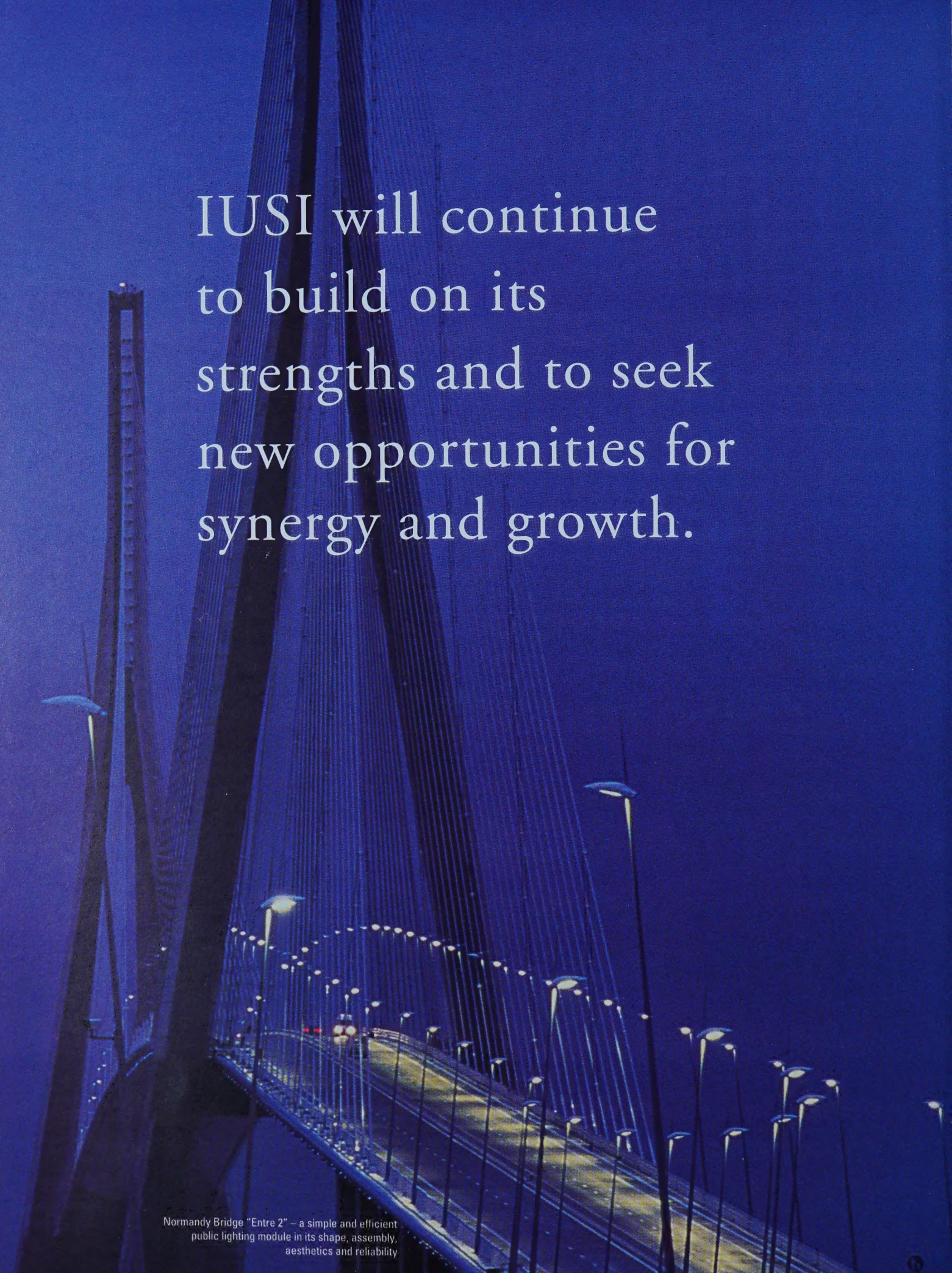
- North American market:
 high annual demand as a result of replacement and new growth by over 3,000 utilities who have an installed base of approximately 175 million poles
- Overseas markets:
 includes developed and emerging economies with an estimated 5,500 utilities. Electrical and telecommunication infrastructure is one of the leading priorities for emerging economies and a precursor to industrial growth and political stability. Developed economies are more focused on replacement, whereas emerging economies focus on infrastructure construction.

Growing Trend by Utilities to Replace Treated Wood and Concrete Poles

- Most utilities have been investigating alternatives to treated wood and concrete poles
- Steel already widely accepted as the preferred material in tall electrical transmission structures and roadway lighting
- Developing countries prefer longer lasting, user-friendly, environmentally inert poles which are less vulnerable to local climates

The new company will be in a much stronger position to target all of the above markets.





IUSI will continue to build on its strengths and to seek new opportunities for synergy and growth.

Normandy Bridge "Entre 2" – a simple and efficient public lighting module in its shape, assembly, aesthetics and reliability

President's Message to the Shareholders

Dear Fellow Shareholders,

1997 will be remembered as a pivotal year in the history of IUSI. Our purchase of Petitjean, a well established company several times our size which targets the same marketplace, will accelerate IUSI into a new growth curve. The benefits IUSI will realize through this single transaction could only have otherwise been achieved through a significant long-term investment of capital and market development resources.

The acquisition enables us to broaden our focus from being primarily a North American supplier of steel distribution poles, to become a major global player which can supply the full spectrum of the marketplace's requirements in metal overhead support structures.

This large acquisition raises many pertinent questions for our shareholders and potential investors. Let me report this year again, by answering some key questions being asked by many of you.

Why did IUSI buy Petitjean Industries?

QUESTION

We saw an opportunity to become a world leader in the overhead support structures market. This pivotal event puts IUSI in a dominant and very strategic position that we could not have achieved for many years by internal growth. Also, IUSI was looking for a more substantial international presence – so Petitjean's well established and successful global marketing, sales and distribution network was of key interest to us. By combining IUSI's unique manufacturing technology, with the established market presence of Petitjean, we have positioned ourselves as one of the world's leading overhead support structures companies.

Some of the considerations of the acquisition and the resulting benefits we considered included:

- Complementary product lines and distribution channels;
- Expanded application of IUSI's proprietary technology to reduce manufacturing costs;
- Strong management team;
- Accelerated penetration of a large global market; and
- Creation of a synergistic platform for global growth.

Petitjean Financial Profile *In millions of French francs (FF) and U.S. dollars (US$)*

	Sept 30, 1997		Sept 30, 1996	
	FF	US$ (1)	FF	US$(1)
Total Operating Revenues	878.2	155.7	769.5	136.4
EBITDA	76.4	13.5	64.0	11.3
Total Assets	610.7	108.3	504.3	89.4
Shareholders' Equity	210.4	37.3	172.0	30.5

(1) U.S. exchange rate used is 5.64:1



What is your post-acquisition strategy to enhance shareholder value as a combined company?

The company intends to fully implement a business strategy on a global scale that fully exploits competitive advantages and unique strengths of the combined entities. Our aim is to create new shareholder value by translating our strategy into enhanced cash flow and profitability.



"Moored" in Cherbourg Harbour – the modular designed columns are made of a conical shaft with a curved boom overhanging the road. The light emitted from the column varies to represent the sea at low and high tide.

At the outset we could see that the new company will be able to:

Realize cost savings - by re-positioning Petitjean as a low cost producer through reduced manufacturing costs. Key initiatives will include utilizing the lower cost, excess production capacity at IUSI's Batesville, Arkansas facility, commencing in mid-1998 to fulfill orders at the capacity-constrained facilities of Petitjean, and installing a new production line in Troyes, France by mid-1998 which will utilize IUSI's proprietary technology.

Leverage Petitjean's global reputation and market presence – by acquiring Petitjean, IUSI gained immediate access to Petitjean's extensive global distribution network without investing additional capital.

Continue technological innovation - The company is committed to directing the appropriate resources to research and development to continue improving production processes while lowering costs and increasing volumes.

Attractive business model – IUSI's production line based on a unique technology and low break-even point can be easily replicated with minimal investment where market demand exists. Thus, the new company will be able to add substantial production capacity for its high-volume, engineered pole products which can generate significant additional cash flow.

Why did you finance the acquisition of Petitjean with high-yield debt?

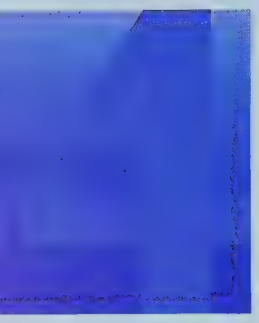
IUSI, counseled by independent expert financial advisors and shareholders, decided that issuing high-yield debt was in the best interest of IUSI's shareholders. It was felt that it would be unnecessarily dilutive for existing shareholders if IUSI had issued additional shares at this time.



Steel poles are lightweight and stack easily for effective shipment



A line of treated wood poles being replaced by IUSI steel poles.



How is IUSI's marketplace accepting steel poles vs. competing alternatives?

In 1997 we remained focused on the North American market and our prime objective has been educating the marketplace about the advantages of steel poles, and we are happy to see increasing acceptance by the marketplace. Independent evaluations have shown that steel is a superior alternative for overhead support structures – with distinct economic and performance advantages over all other alternatives.

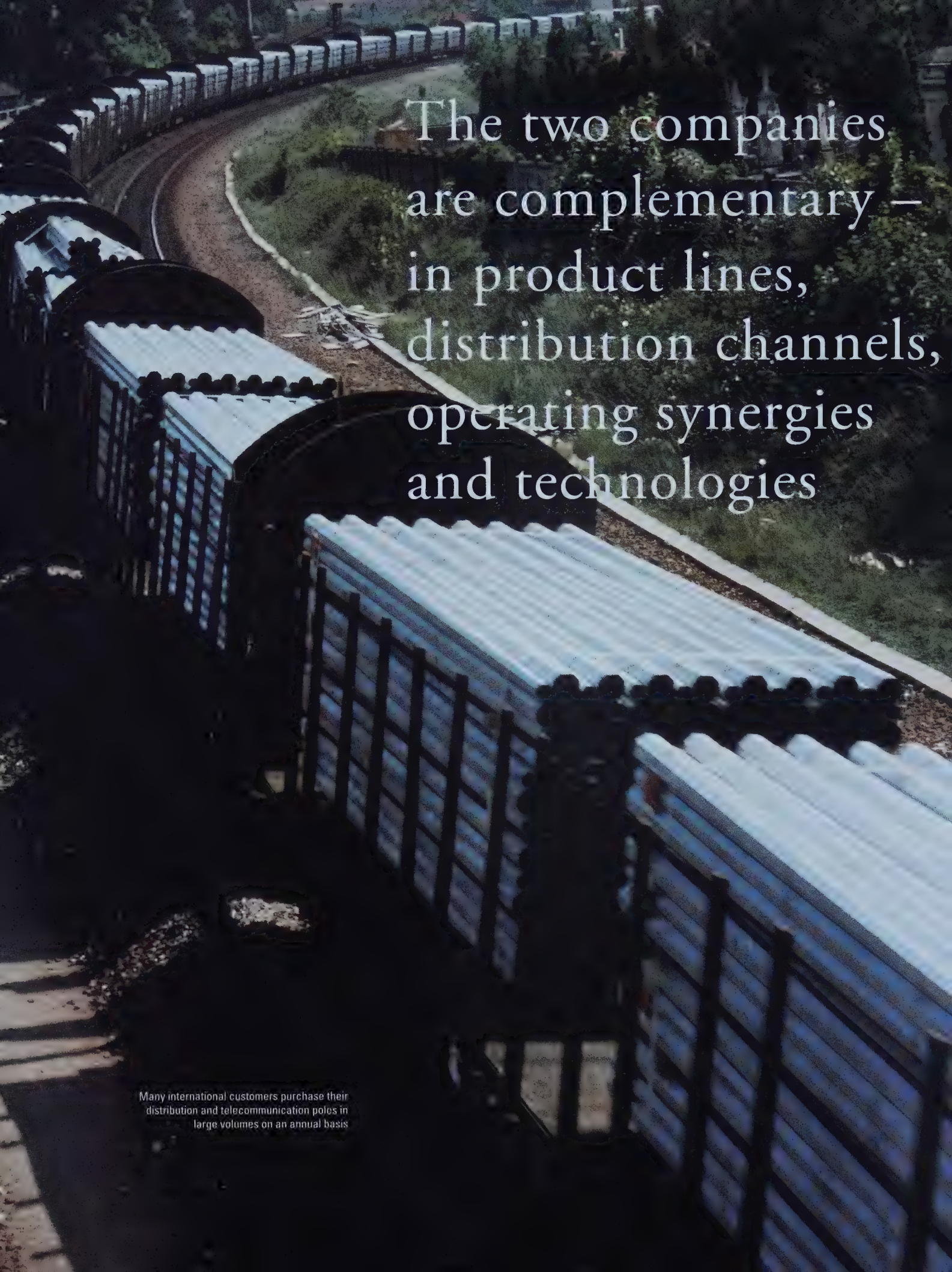
As utilities' long-term "take or pay" contracts for wood poles come up for renewals, we have noted a growing number of utility engineers requesting better alternatives to chemically-treated wood poles which have dominated this market for almost 100 years. For example, one North American utility announced in 1997 that it will be standardizing all of its overhead distribution requirements to steel.

Also, environmental groups are recommending that utilities convert from treated wood poles to environmentally friendly poles made from inert material such as steel. In fact, they are urging utilities to accelerate their evaluation of alternatives to wood poles which are chemically treated with preservatives and strong pesticides.

Another alternative to steel is concrete which is used predominantly outside of North America to manufacture distribution poles. Steel poles are substantially easier to ship, handle and install due to their lighter weight; have a longer life span; are easier to manufacture in large volumes, and are less costly on an installed basis. Steel poles are also proving to be superior to poles made from materials such as fiberglass and composites.

To summarize, the industry has adopted the use of steel as the dominant pole material in transmission, lighting and traffic. The remaining segment of this market to be converted is in the area of electrical distribution and telecommunications. IUSI has positioned itself to lead this transformation on a global basis.

A testimony to our success is a growing number of North American utilities which have approved IUSI as an accredited supplier of their distribution pole needs.



The two companies are complementary – in product lines, distribution channels, operating synergies and technologies

Many international customers purchase their distribution and telecommunication poles in large volumes on an annual basis

OPERATIONS

Markets

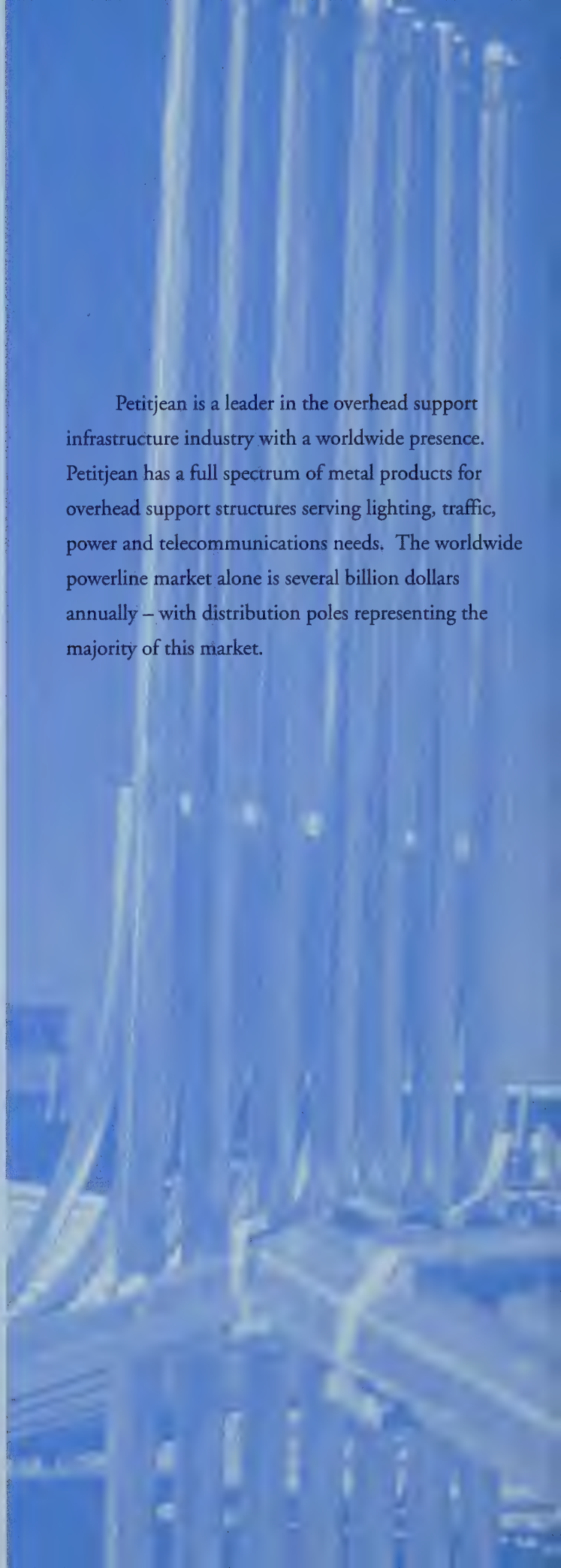
IUSI has been approved as the accredited supplier of steel distribution poles by a growing number of utilities worldwide.

The annual replacement rate for steel poles in North America is estimated to be about 3% of the installed base of 175 million poles, with utilities each buying between 500 and 200,000 poles annually. IUSI's products, with lower lifecycle costs than the alternatives, have caused utilities to study extensively the merits of steel distribution poles.

Environmental concerns are also helping to increase the market penetration for IUSI. Environmental groups are continuing their efforts to point out the health and environmental hazards associated with the continued use of chemical wood preservatives and pesticides used to treat wood poles.

Steel poles are also proving to be superior to other alternatives such as poles made of concrete, fiberglass and composites.

Petitjean is a leader in the overhead support infrastructure industry with a worldwide presence. Petitjean has a full spectrum of metal products for overhead support structures serving lighting, traffic, power and telecommunications needs. The worldwide powerline market alone is several billion dollars annually – with distribution poles representing the majority of this market.



Marketing and Distribution

IUSI has a strong marketing and distribution network in North America through 6 Regional Sales Managers and approximately 84 agents. It has also established itself as the approved supplier of poles to a growing number of North American and overseas utilities.

Petitjean has a strong global distribution network with sales in over 100 countries annually. Petitjean is an approved supplier of overhead support structures in 130 countries with solid relationships with major utilities - and it is recognized globally for its high quality and engineering.

Manufacturing

IUSI has proprietary welding technology that greatly reduces manufacturing costs thereby creating an attractive business model. IUSI's "mini mill" concept has high operating leverage – a low capital investment in a production line is capable of delivering high volume production of steel poles generating significant revenues.

IUSI produces all of its round tapered steel poles at its Batesville, Arkansas facility. The production process uses electric resistance welding to produce a 45-foot round tapered, steel pole shaft every 90 seconds. The annual capacity for the production line is approximately 250,000 pole shafts with a direct labor force of eight workers per shift, on a three-shift basis.

Petitjean has three main manufacturing and selling operations: Petitjean S.A. in France, Union Metal in the U.S., and Stainton in Great Britain.

Petitjean's main production facility is in Troyes, France. This facility is currently operating near capacity using conventional production processes.

The other manufacturing site in Teesside, England is operated by Stainton and produces primarily stepped, tubular and polygonal lighting poles through a conventional manufacturing process.

Union Metal is located in Canton, Ohio, and produces traffic and lighting support structures for state and public highway authorities, and also supplies support structures to wireless telecommunications service providers. This facility also currently operates near capacity using conventional production processes.

Products

IUSI has a focused product line that covers overhead steel support structures such as distribution poles, light duty transmission, light duty telecommunications, and tubular shafts for lighting. The steel poles are superior in performance and competitive in economics to chemically treated wood poles, which historically have dominated the North American market.



Petitjean has a full spectrum of overhead support structures such as heavy and light duty telecommunications, heavy and light duty power transmission, highway and traffic overhead structures. For the year ended September 30, 1997, lighting poles represented the largest percentage of Petitjean's sales.

Petitjean offers a full spectrum of overhead support structure products:

- steel lighting (polygonal, tubular, round-tapered conical (RTC) and stepped)
- lighting – highmast, aluminum, decorative
- power transmission - heavy duty (substations) and light duty
- telecommunications (cellular and land-line)
- traffic and highway

General

Pursuant to the acquisition agreement between IUSI and Barisart International BV ("Barisart"), IUSI acquired on January 30, 1998, 1,155,939, or approximately 81.0%, of the issued and outstanding shares of Petitjean Industries S.A.("Petitjean") owned by Barisart, in consideration of FF239,279,373, or FF207 per share. In accordance with French law, IUSI launched a public bid to acquire the remaining Petitjean Shares at a price of FF207 per share. Prior to the launch, two shareholders of Petitjean, who held an aggregate of 224,302 or approximately 15.7% of the Petitjean Shares, irrevocably agreed to tender to the public bid. The public bid was launched on February 12, 1998 and remained open until February 25, 1998. After the completion of the public bid, IUSI held 1,424,036 or 99.76% of the Petitjean Shares. The 3,375 remaining Petitjean Shares not tendered into the public bid will be acquired by IUSI pursuant to a buy-out offer and squeeze-out procedure which is expected to be consummated by May 29, 1998.

IUSI commenced operations in 1991 to focus on the production and marketing of steel powerline distribution and sub-transmission poles and land-line telecommunications poles. In 1992 and 1993, IUSI fulfilled a Cdn$36 million contract with the National Electrification Administration of the Philippines. Profits from this contract were used to develop IUSI's high speed, high volume round tapered steel pole shaft production process and in 1994, IUSI converted its manufacturing facility to this new process. Sales were not recorded in 1994 for



IUSI's poles are manufactured in its 102,000 sq. ft. plant in Batesville, Arkansas

products manufactured with this process until it was certified by the Canadian Welding Bureau on September 27, 1994.

The sales cycle for new utility products is generally long and may take several years to complete. The sales cycle may involve several steps, including initial contact with the customer by IUSI, its sales or distribution agents, education of the customer concerning the environmental and life-cycle cost advantages of steel poles, qualification of IUSI as an acceptable bidder in tender situations, contract award and contract implementation. Wood and concrete distribution poles have historically dominated the powerline distribution pole market and the utility industry has been generally slow to implement significant change. Therefore, significant sales from steel powerline distribution poles may take several years to develop.



Aerial view of Petitjean's production facility in St. André, France

Since commencing production using the new technology in 1994, IUSI has experienced capacity underutilization. Current annual production capacity at IUSI's Batesville facility is approximately 250,000 pole shafts on a three shift basis. An aggregate of 39,144 pole shafts have been manufactured from late 1994 to December 31, 1997. This capacity underutilization has resulted in high per pole plant operating costs and selling and administration expenses, and thereby adversely affected IUSI's results of operations. IUSI expects production levels to greatly increase in the next few years, resulting in a substantial decrease in such per pole operating costs.

In 1996, IUSI relocated its plant from Alberta, Canada to Batesville, Arkansas, to be closer to its customer base and suppliers of raw

materials, thereby reducing transportation and production costs. As a result of the relocation, there was virtually no production in the second quarter of 1996. In addition, plant relocation and start-up expenses of $1.6 million were charged to earnings in 1996. Although IUSI's results in 1996 were affected by this relocation, management believes that the relocation will result in a reduction of plant operating costs in the future.

IUSI manufactures steel powerline distribution and sub-transmission poles and land-line telecommunications poles of varying sizes. Larger poles typically sell for higher prices. As a consequence IUSI's overall gross margin will vary depending upon the sales mix. Cost of sales includes steel, third party galvanizing, labor and pole accessories. Steel represents the largest part of the cost of a pole. The price and availability of steel and other raw materials are subject to fluctuations as a result of a number of factors, including general economic conditions, labor costs, competition, import duties, tariffs and currency exchange rates. For larger contracts that are completed over a period of time, IUSI endeavors to fix the cost of its steel requirements for the contract period at the time of pricing by entering into matching steel supply contracts. This minimizes its exposure to fluctuations in steel prices.

IUSI records its sales net of freight and sales commissions.

IUSI prepares its consolidated financial statements in accordance with Canadian GAAP. The following discussion should be read in conjunction with the IUSI Consolidated Financial



Corporate offices and manufacturing division of Union Metal Corporation, Canton, Ohio, one of Petitjean's subsidiaries

Statements and the Interim Financial Statements.

Results of Operations

For the year ended December 31, 1997 ("fiscal 1997"), IUSI delivered 21,608 poles compared to 11,703 poles for the year ended December 31, 1996 ("fiscal 1996)", an increase of 84.6%.

Sales

Sales in fiscal 1997 were $5.1 million compared to $2.5 million in fiscal 1996, an increase of 101%. This increase was primarily due to the increase in the number of poles sold and a slight increase in the average price per pole sold to $237 compared to $218 in fiscal 1996.

Approximately $2.4 million, 46%, of IUSI's net sales in fiscal 1997 were generated from three customers. Although there is some concentration of sales, IUSI is attempting to diversify its customer base by engaging more distributors and agents. In fiscal 1997, four new exclusive sales agency agreements were signed and eight new exclusive distributorship contracts were signed.

Cost of Sales

Cost of sales in fiscal 1997 was $4.2 million compared to $2.3 million in fiscal 1996, an increase of 80.9%. Cost of sales as a percentage of revenue declined to 81.2% of sales in fiscal 1997 compared to 90.3% of sales in fiscal 1996, as a result of higher production volumes and lower transportation and raw material costs due to the relocation of the manufacturing plant to Batesville.

Plant Operating Cost

Plant operating costs in fiscal 1997 were $1.5 million compared to $1.0 million in fiscal 1996, an



Euralille "Hypothesis", Lille, France. Euralille throws away the conventional design of lighting columns. The principle, the size and the design reflect the surroundings.

increase of 45.5%. The higher costs in fiscal 1997 were due to higher production volumes and also due to the plant relocation which resulted in a temporary shutdown of the plant in fiscal 1996. Plant operating costs as a percentage of sales declined to 29.5% of sales in fiscal 1997 from 40.7% of sales in fiscal 1996, as a result of higher production levels in fiscal 1997.

Selling and Administration Expenses

Selling and administrative expense in fiscal 1997 was $2.6 million compared to $2.7 million for fiscal 1996, a decrease of 2.0%

In 1997, the remaining provision for completion of contract costs was eliminated in the amount of $295,809. See note 7 to the IUSI Consolidated Financial Statements.

Interest and Other Income

Interest and other income in fiscal 1997 was $46,505 compared to $414,422 in fiscal 1996. This decrease was due to a substantial reduction in interest earned as a result of lower cash balances during fiscal 1997.

Financing Costs

Financing costs, including dividends on redeemable preferred shares, in fiscal 1997 were $1.3 million compared to $135,728 in fiscal 1996. This increase was due to fees incurred in connection with a short term loan and charges relating to the accretion of the value of IUSI's redeemable preferred



Highly polished stainless steel street lighting – an extensive range of decorative columns, from conventional models to design specific products

shares to their redemption price. In addition, costs of $628,154 related to a proposed equity offering that was discontinued in favor of the sale of the 10.75% Senior Subordinated Notes due 2008 and Senior Exchangeable Preferred Shares is included in financing costs.

Depreciation and Amortization

Depreciation and amortization for fiscal 1997 was $1.0 million compared to $597,482 in fiscal 1996, an increase of 68.9%. The increase was due to the additional depreciation on fixed assets added in fiscal 1996 and to the higher amortization of deferred development cost ($189,775 in fiscal 1997 compared to $95,612 in fiscal 1996) that are being amortized over a five year period on an increasing basis utilizing the sum of the year's digits method.

Loss

The net loss in fiscal 1997 was $5.1 million, a



From the functional lighting column to the decorative column, from cities to bridges (Normandy Bridge), meeting customer requirements with innovative designs is what will make IUSI a world leader in the next millenium

decrease of 5.6% over the $5.4 million net loss reported in fiscal 1996.

Liquidity and Capital Resources

IUSI has no long term debt and working capital of $2.7 million at December 31, 1997. The cash component of working capital was $1.9 million. IUSI's expenditure on plant and equipment in 1997 was $451,000 compared to $1.9 million in 1996. The 1997 expenditures were primarily for improvements to the manufacturing plant in Arkansas.

The Year 2000

IUSI has begun the assessment of its computerized information and manufacturing systems and also the exposure that may exist from our suppliers in relation to the Year 2000 issue. IUSI's exposure comprises problems which it can control and those which it cannot control. IUSI is developing solutions for problems within its control. Notwithstanding these initiatives, there can be no assurance that the systems of the third parties on which IUSI relies will be Year 2000 compliant in a timely manner or that any such failure to take remedial action by another third party would not have an adverse effect on IUSI's results of operations.



Europole "Europole Grenoble" – the coloured lights in the base of the module shaft turn successively from white to red, thus introducing a human element



The French National Library, Paris, is a piece of urban art. The columns can be decorative or plain, and in single or multiple configurations

IUSI management monitors key business drivers which are critical to the company's profitability

Management's Report

To The Shareholders of International Utility Structures Inc.

The consolidated financial statements of International Utility Structures Inc. were prepared by management in accordance with accounting principles generally accepted in Canada. The financial and operating information presented in this Annual Report is consistent with that shown in the financial statements.

External auditors appointed by the shareholders have conducted an independent examination of the corporate and accounting records in order to express their opinion on the financial statements (see page 24). The Audit Committee, comprised of non-management directors, has met with the external auditors and management in order to determine if management has fulfilled its responsibilities in the preparation of the financial statements. The Audit Committee has reported its findings to the Board of Directors and the Board has approved the consolidated financial statements.



Robert G.J. Jack
President & Chief Executive Officer



Gerald A. Diener
Vice President Finance

Auditors' Report

To The Shareholders of International Utility Structures Inc.

We have audited the consolidated balance sheets of International Utility Structures Inc. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

KPMG

Chartered Accountants

Calgary, Canada
February 20, 1998

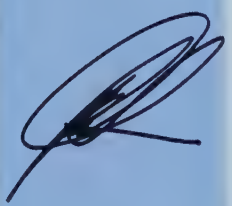
INTERNATIONAL UTILITY STRUCTURES INC.
CONSOLIDATED BALANCE SHEETS

As at December 31, 1997 and 1996
(In U.S. Dollars)

	1997	1996
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 1,913,193**	$ 3,205,319
Accounts receivable	**1,108,757**	678,241
Inventories (note 4)	**765,796**	917,977
Prepaid expenses	**57,101**	106,360
	3,844,847	4,907,897
Plant and equipment (note 5)	**4,310,839**	4,679,422
Deferred product development costs (note 6)	**1,148,797**	1,338,572
Deferred financing costs	**445,321**	-
	$ 9,749,804	$10,925,891
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	**$1,190,320**	$ 501,429
Provision for contract completion costs (note 7)	**-**	305,126
	1,190,320	806,555
Redeemable preferred shares (note 8)	**1,996,614**	1,914,021
	3,186,934	2,720,576
Shareholders' equity:		
Capital stock (note 9)	**18,983,906**	15,537,443
Deficit	**(12,421,036)**	(7,332,128)
	6,562,870	8,205,315
Commitments (note 12)		
Subsequent events (note 14)		
	$ 9,749,804	$10,925,891

See accompanying notes to consolidated financial statements.

Approved by the Board:

Director  Director 

INTERNATIONAL UTILITY STRUCTURES INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended December 31, 1997 and 1996
(In U.S. Dollars)

	1997	1996
Sales, net of commissions	**$ 5,122,550**	$ 2,547,779
Less:		
Cost of sales	**4,161,967**	2,300,176
Selling and administrative expenses	**2,620,990**	2,675,410
Plant operating costs	**1,509,837**	1,037,484
Depreciation and amortization	**1,009,184**	597,482
(Reduction in) provision for contract completion costs	**(295,809)**	-
Plant relocation and startup (note 3)	**-**	1,583,432
	9,006,169	8,193,984
Loss before undernoted and income taxes	**3,883,619**	5,646,205
Dividends on redeemable preferred shares (note 8)	**130,459**	132,013
Interest and other income	**(46,505)**	(414,422)
Financing costs	**1,121,335**	3,715
Loss before income taxes	**5,088,908**	5,367,511
Income taxes	**-**	21,898
Loss	**5,088,908**	5,389,409
Deficit, beginning of year	**7,332,128**	1,942,719
Deficit, end of year	**$ 12,421,036**	$ 7,332,128
Loss per share	**$ 0.45**	$0.49
Weighted average number of shares outstanding	**11,201,515**	11,067,644

See accompanying notes to consolidated financial statements.

INTERNATIONAL UTILITY STRUCTURES INC.
CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

As at December 31, 1997 and 1996
(In U.S. Dollars)

	1997	1996
Cash provided by (used in):		
Operations:		
Loss	**$ (5,088,908)**	$ (5,389,409)
Items not involving cash:		
Depreciation and amortization	**1,009,184**	597,482
Interest expense settled by shares	**270,000**	-
Accretion of preferred shares to redemption value	**90,000**	-
	(3,719,724)	(4,791,927)
Accounts receivable	**(430,516)**	(449,094)
Income taxes receivable	**-**	757,524
Inventories	**152,181**	(154,255)
Prepaid expenses	**49,259**	(62,855)
Accounts payable and accrued liabilities	**383,768**	(536,850)
	(3,565,032)	(5,237,457)
Financing:		
Cash proceeds from issue of common shares, net of costs	**3,176,463**	(7,632)
Deferred financing costs	**(445,321)**	-
Issue costs	**(7,407)**	-
	2,723,735	(7,632)
Investments:		
Purchase of plant and equipment	**(450,829)**	(1,936,920)
Proceeds on disposition of equipment	**-**	4,699
	(450,829)	(1,932,221)
Decrease in cash	**(1,292,126)**	(7,177,310)
Cash and cash equivalent, beginning of year	**3,205,319**	10,382,629
Cash and cash equivalent, end of year	**$ 1,913,193**	$ 3,205,319

INTERNATIONAL UTILITY STRUCTURES INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL:

International Utility Structures Inc. ("IUSI" or the "Company") was incorporated on July 8, 1993 under the Business Corporations Act (Alberta) by Strand Industries Limited ("Strand"). On February 1, 1994, IUSI and Strand amalgamated with the continuing company also named International Utility Structures Inc. (the "Company"). The amalgamation of Strand and IUSI has been accounted for as a continuation of the business of Strand at historical cost as it was a continuation of entities under common control.

2. SIGNIFICANT ACCOUNTING POLICIES:

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada and all amounts are presented in U.S. dollars, as the majority of the Company's operating assets are located in the United States. Prior to 1996, the Company reported in Canadian dollars as its operating assets were primarily located in Canada. This change in reporting currency was prompted by the relocation of the Company's manufacturing plant to the United States. Previous years' comparative figures have been translated to U.S. Dollars using the "translation of convenience" method whereby all amounts previously reported have been translated into U.S. dollars at a rate of 1.3652:1.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In the consolidated financial statements of the Company, the most significant areas where management is required to make near term estimates is in the assessment of underlying value and depreciation and amortization periods of plant and equipment and deferred product development costs. Actual amounts could differ from those estimates.

The following additional significant accounting policies have been applied in the preparation of these consolidated financial statements.

(a) Principles of consolidation:

These financial statements consolidate the accounts of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated.

(b) Cash equivalents:

Cash equivalents are comprised of highly liquid investments having an original terms to maturity of three months or less.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(c) Inventories:

Inventories of finished goods and work-in-process, which include direct production materials and labour, are valued at the lower of cost, determined on a weighted average basis, and net realizable value.

Inventories of materials and supplies are valued at the lower of average cost and replacement cost.

(d) Plant and equipment:

Plant and equipment are carried at cost.

The rates of depreciation applied to write off the cost less estimated salvage values of plant and equipment over their estimated lives, commencing in the month following acquisition or the asset being put to use, are as follows:

Asset	Basis	Rate
Machinery and equipment	Straight-line	10% - 20%
Furniture and equipment	Straight-line	20%
Leasehold improvements	Straight-line	Duration of lease

(e) Deferred product development costs:

Direct product development costs, including engineering salaries, production of test poles and the development of the manufacturing process, have been deferred and will be amortized on an increasing basis utilizing the sum of the years' digits method over a five year period. If, at any time, the undiscounted amount of estimated future cash flows is less than the benefits of the costs capitalized, the excess will be charged against income at that time.

(f) Deferred financing costs:

Costs incurred in anticipation of the issuance of the Notes and Units (note 14(b)) have been deferred. Costs will be amortized prospectively over the securities' terms to maturity by the effective interest method.

(g) Revenue recognition:

Revenue is recognized when title passes to the purchaser and there is reasonable certainty as to the collectability of the proceeds.

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(h) Income taxes:

The Company accounts for income taxes on the deferred tax allocation method. Under this method, timing differences between reported and taxable income result in provisions for taxes not currently payable. Such timing differences arise principally as a result of claiming depreciation and other amounts for tax purposes at amounts differing from those charged to income.

(i) Loss per share:

Loss per share has been calculated by dividing into the loss for a period the weighted average number of common shares outstanding in that period. Fully diluted loss per share information has not been presented as the impact of outstanding options and warrants is anti-dilutive.

(j) Foreign currency:

The functional currency of the Company's principal operation is the U.S. dollar. Monetary items denominated in Canadian dollars are translated to U.S. dollars at exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

3. PLANT RELOCATION AND START UP:

During 1996, the Company's manufacturing plant was relocated from Crowsnest Pass, Alberta to Batesville, Arkansas to locate its operations closer to its markets and steel suppliers. The plant relocation and start up costs include the cost to close the Alberta plant, transport the equipment, train a new workforce and commission the Arkansas plant.

4. INVENTORIES:

	1997	1996
Finished goods and work-in-process	$ 119,196	$ 63,188
Materials and supplies	646,600	854,789
	$ 765,796	$ 917,977

5. PLANT AND EQUIPMENT:

December 31, 1997	Cost	Accumulated Depreciation	Net Book Value
Machinery and equipment	$ 5,434,349	$ 1,766,016	$ 3,668,333
Furniture and equipment	305,068	172,884	132,184
Leasehold improvements	657,369	147,047	510,322
	$ 6,396,786	$ 2,085,947	$ 4,310,839
December 31, 1996			
Machinery and equipment	$ 4,937,573	$ 1,105,338	$ 3,832,235
Furniture and equipment	353,920	124,106	229,814
Leasehold improvements	655,109	37,736	617,373
	$ 5,946,602	$ 1,267,180	$ 4,679,422

6. DEFERRED PRODUCT DEVELOPMENT COSTS:

	1997	1996
Deferred development costs	$ 1,433,849	$ 1,434,184
Accumulated amortization	(285,052)	(95,612)
	$ 1,148,797	$ 1,338,572

7. PROVISION FOR CONTRACT COMPLETION COSTS:

In December 1991, the Company entered into a contract with the National Electrical Administration ("NEA"), an agency of the Government of the Republic of the Philippines, to fabricate and export to the Philippines approximately 84,000 steel utility poles. The Company's delivery obligations, under the contract, were fulfilled at dockside Manila. Due to administrative and operational problems within NEA, NEA incurred significant additional costs in the Philippines. The Company was asked to subsidize these costs and offset said costs against the total contract quantities. At December 31, 1997, management believes the contract has been completed and no further provision is required.

7. PROVISION FOR CONTRACT COMPLETION COSTS (CONTINUED):

Amounts payable reflected in the consolidated financial statements in respect of possible contract completion costs and amounts receivable from NEA were as follows:

	1997	1996
Provision for future costs to complete the NEA contract	$ 1,507,047	$ 1,802,883
Less: Amounts expended to complete the contract and costs incurred by the Company on behalf of NEA	(1,507,047)	(1,497,757)
Net provision	$ -	$ 305,126

8. REDEEMABLE PREFERRED SHARES:

(a) Authorized:

Unlimited preferred shares issuable in series.

5,000 shares designated as fixed, cumulative, Redeemable Preferred Shares, Series 2, with preferential dividends at an annual rate of 6% of the subscription price.

(b) Issued:

	Number of Shares	Amount
Redeemable preferred Series 2:		
Balance, December 31, 1995 and 1996	3,000	$ 1,914,021
Accretion to redemption value	-	90,000
Issue costs	-	(7,407)
Balance, December 31, 1997	3,000	$ 1,996,614

Redeemable Preferred Shares, Series 2 are held by an Escrow Agent for a five year holding period. For 45 days following the holding period, the Company will provide an option to the preferred shareholder to convert the $1,000 Canadian preferred shares into common shares at $3.825 Canadian per common share. If at the expiry of this 45 day option period the conversion has not been exercised, the Redeemable Preferred Shares, Series 2 will be redeemed at $1,000 Canadian per share.

8. REDEEMABLE PREFERRED SHARES (CONTINUED):

(b) Issued (continued):

The preferred shares to be redeemed over the next five years are as follows:

	Canadian Dollars
1998	$ -
1999	1,750,000
2000	1,000,000
2001	250,000
2002	-

9. CAPITAL STOCK:

(a) Authorized:

Unlimited common shares, without par value

(b) Issued:

	Number of Shares	Amount
Common shares:		
Balance, December 31, 1995	11,066,852	$ 15,545,075
Options exercised	1,500	4,675
Issue costs	-	(12,307)
Balance, December 31, 1996	11,068,352	15,537,443
Warrants exercised	1,273,950	3,231,032
Issued as fee on note payable	99,000	270,000
Options exercised	3,000	9,581
Warrant issue costs	-	(64,150)
Balance, December 31, 1997	12,444,302	$ 18,983,906

Shares issued as fee on note payable were measured based on the market value of the shares at the date issued.

9. CAPITAL STOCK (CONTINUED):

(b) Issued (continued):

In 1995, the Company completed an initial public offering of 3,845,000 common shares and 2,127,500 warrants to purchase common shares at $5.25 Canadian per share to December 31, 1997. Pursuant to this offering, the Company granted to the underwriters options to acquire 402,500 common shares at $4.25 Canadian per common share which expired November 23, 1997.

At December 31, 1996, there were 2,127,500 warrants outstanding. During 1997, the exercise price of the warrants was reduced to $3.50 Canadian per share and 1,273,950 warrants were exercised. The remaining warrants expired on December 31, 1997.

During 1997, the Company granted 33,000 warrants, to purchase common shares at $4.50 Canadian per share, to an unrelated party as consideration for bridge financing. These warrants expire July 31, 1999.

(c) Stock options:

In November 1995, the Company implemented a stock option plan for directors, officers and key employees. Prior to November 1995, the Company had no stock options outstanding. Stock options are granted at exercise prices based on the market price of the Company's common shares at the date of grant.

The Company's outstanding stock options for the periods presented are as follows:

	1997	1996
Outstanding, beginning of year	1,001,500	780,000
Granted	60,000	255,000
Exercised	(3,000)	(1,500)
Cancelled	(139,000)	(32,000)
Outstanding, end of year	919,500	1,001,500
Exercise price of grants issued in the period (Canadian)	$ 4.50	$ 4.50

Stock options vest and become exercisable as to 20% per annum for a five year period commencing with the year of grant. Stock options expire 10 years from the date of grant.

Subsequent to December 31, 1997, the Company granted to directors, officers and key employees options to acquire 405,000 common shares exercisable at $3.05 Canadian per common share.

10. SEGMENTED INFORMATION:

(a) The Company operates in a single industry segment. The Company's gross sales, which include recoverable freight charges, by geographic segment are as follows:

	1997	1996
United States	$ 4,495,492	$ 2,586,005
International	977,635	-
Canada	346,382	334,853

(b) The Company has developed a broad customer base and more than 370 North American electrical utilities have purchased the Company's product. Recently, only a few customers are buying in large volumes resulting in three customers accounting for approximately 46% of the Company's total sales in 1997.

The related percentage of consolidated gross sales for those customers are as follows:

	1997	1996
A	17%	10%
B	13%	11%
C	16%	-

11. INCOME TAXES:

Income tax recovery varies from the amounts that would be computed by applying the basic federal and provincial income tax rates for Canada at 44.6% (1996 - 44.6%) to loss before income taxes. The reasons for the differences are as follows:

	1997	1996
Computed tax recovery	$ (2,269,650)	$ (2,390,919)
Increase (decrease) in taxes resulting from:		
Loss carryforwards benefit not recorded in the financial statements	2,211,465	2,332,041
Non-deductible dividends	58,185	58,878
Large corporations tax	-	21,898
	$ -	$ 21,898

11. INCOME TAXES (CONTINUED):

The Company has loss carryforwards and deductions available for tax purposes in excess of those available for accounting purposes in the aggregate amount of $13,300,000. These amounts are available for deduction against future years taxable income. Included in this amount are operating loss carryforwards of $12,900,000 which expire between 2001 and 2013.

The potential benefit of the above losses and timing differences has not been recognized in the financial statements.

12. COMMITMENTS:

The Company leases its plant in Batesville, Arkansas, pursuant to an operating lease which runs through on June 30, 1999, with an option to renew for an additional three years at the existing annual rent adjusted by the consumer price index. The minimum future annual commitments in respect of the plant and offices leases, and operating leases on machinery and equipment are as follows:

1999	$	116,635
2000		17,312
2001		3,840

Rent expenses for the corporate head office and the plant are included in selling and administration and plant operating costs, respectively, as follows:

	1997	1996
Corporate office rent	$ 71,045	$ 57,373
Plant rent	137,700	81,112

13. COMPARATIVE FIGURES:

Certain comparative figures have been reclassified to conform with the current financial statement presentation.

14. SUBSEQUENT EVENTS:

(a) Petitjean Acquisition:

Pursuant to an agreement (the "Acquisition Agreement") dated October 24, 1997, on January 30, 1998, the Company acquired 81% of the issued and outstanding shares of Petitjean Industries SA ("Petitjean") from an unrelated party for cash consideration of

14. SUBSEQUENT EVENTS (CONTINUED):

(a) Petitjean Acquisition (continued):

approximately French Francs 239 million. Immediately following the closing, the Company launched a public bid in respect of the remaining Petitjean shares at the same price per share as paid under the Acquisition Agreement. Prior to the launch, two of the remaining Petitjean shareholders, who held an aggregate of 15.7% of Petitjean shares irrevocably agreed to tender their shares pursuant to this public bid. Any shares not tendered under the public bid are being acquired pursuant to a buy-out offer and squeeze-out procedure at the same price.

Petitjean manufactures steel and aluminum poles for overhead lighting, powerline transmission, traffic and telecommunications support structures through operating facilities in France, Great Britain and the United States. The purchase of the Petitjean shares was funded from the proceeds of the offerings of the Notes and the Units (see (b)).

The acquisition of Petitjean will be accounted for under the purchase method with the Company identified as the acquirer. The results of operations of Petitjean will be consolidated with those of the Company from January 30, 1998. Based on the estimated fair values of Petitjean's assets and liabilities at January 30, 1998, using the exchange rate in effect at that date, giving effect to the public bid which will result in the Company acquiring 100% of Petitjean, the aggregate purchase price of French Francs 295.4 million ($48.1 million) plus estimated costs of $0.5 million will be allocated as follows (in thousands):

	(Unaudited)
Current assets	$ 69,809
Property, plant and equipment	41,786
Other non-current assets	1,921
	113,516
Less:	
Current liabilities	(49,728)
Long-term debt	(13,457)
Other non-current liabilities	(1,691)
	$ 48,640

The allocation set out above is preliminary only and is subject to change.

14. SUBSEQUENT EVENTS (CONTINUED):

(b) Offerings:

Partially to finance the Petitjean acquisition, the Company issued 10.75% Senior Subordinated Notes due 2008 (the "Notes") for aggregate proceeds of $75,000,000 (before costs and commissions). Interest on the notes is payable semi-annually. The Notes are redeemable at the option of the Company, in whole or in part, at any time on or after January 30, 2003 at specified redemption prices. The holders of the Notes will be able to require the Company to repurchase the Notes upon the occurrence of specified events. The Notes are unsecured obligations of the Company and are subordinated in right of payment to all existing and future senior debt of the Company. In addition, the Notes are effectively subordinated to all existing and future indebtedness and all other liabilities, including trade payables of the Company's subsidiaries.

The Notes were issued under an indenture date January 30, 1998 (the "Indenture") between the Company and The Bank of Nova Scotia Trust Company of New York, as trustee. The Indenture contains certain covenants which can limit the Company's and certain of its subsidiaries' ability to incur certain debt and to declare or pay dividends on its capital stock other than on its currently outstanding redeemable preferred shares and the exchangeable preferred shares issued as part of the Units.

Concurrently with the offering of the Notes, the Company issued 20,000 Units (the "Units"), each consisting of one 13% senior exchangeable preferred share, having a redemption amount of $1,000 and one warrant to purchase 30 common shares of the Company at a per share price of $1.98 Cdn. Dividends on the exchangeable preferred shares are payable semi-annually. At the Company's option, declared dividends on any dividend payment date prior to January 30, 2001 may be paid in cash or in additional exchangeable preferred shares. These shares are redeemable at the option of the Company, in whole or in part, at any time on or before January 30, 2003 at specified redemption prices. In addition, at any time prior to January 30, 2001, the Company may, at its option, use any net cash proceeds from one or more sales of common shares to redeem exchangeable preferred shares, in whole or in part, at specified redemption prices. In addition, each holder of an exchangeable preferred share will be able to require the Company to repurchase all or a portion of the shares upon the occurrence of specified events. Due to the mandatory redemption in 2008, for accounting purposes, the value assigned to the exchangeable preferred shares, estimated to be $18,188,000, will be classified as a liability. The balance of the face value of the Units, will be assigned to the warrants.

15. FINANCIAL INSTRUMENTS:

(a) Fair values:

Financial instruments of the Company are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and redeemable preferred shares. The fair values of all financial instruments are estimated to not be materially different from their carrying values either due to their ability for liquidation or settlement in the near term or, with respect to the redeemable preferred shares, due to their redemption price effectively equalling their carrying value and the dividend rate being representative of equivalent interest rates.

(b) Hedging:

The Company has no outstanding contracts to hedge its exposure to the risk of foreign currency exchange rate fluctuations.

Directors, Officers and Senior Management

Senator Jack Austin, Q.C. (3)
Director

John S. Burns, Q.C. (3)
Director

Robert J.S. Gibson (1)(2)
Director

Robert G.J. Jack (1)
Director, President & Chief Executive Officer

Brian G. Kenning (1)(2)
Director - Chairman

Terrence A. Lyons (1)(2)
Director

David B. Olsen (3)
Director

Edward R. Pitts
President, U.S. Operations

Gerald A. Diener
Vice President Finance

Ann M. Mooney
Corporate Secretary

(1) Member of Executive Committee
(2) Member of Audit Committee
(3) Member of Compensation Committee

Corporate Information

Head Office
Suite 1800, 777 - 8th Ave. S.W.
Calgary, Alberta, Canada T2P 3R5
Tel: (403) 269-2350
Toll Free 1-800-263-9444
Fax: (403) 290-0523

Manufacturing Plant
2210 East Main Street
Batesville, Arkansas, USA 72501

Corporate Bank
Canadian Imperial Bank of Commerce
Calgary, Alberta

Auditors
KPMG
Calgary, Alberta

Legal Counsel
Bennett Jones Verchere
Calgary, Alberta

Registrar and Transfer Agent
Montreal Trust Company
Calgary, Alberta

Stock Exchange Listing
Alberta Stock Exchange Trading Symbol
Common Shares – IUS

Share Trading Summary

IUSI became a public company on November 27, 1995. Quarterly trading is as follows:

	High	Low	Close	Volume
First Quarter 1997	6.000	4.350	5.400	215,265
Second Quarter 1997	6.000	4.100	5.500	76,300
Third Quarter 1997	5.000	3.500	3.800	132,350
Fourth Quarter1997	5.350	2.250	2.750	1,041,930
First Quarter 1998	5.400	2.000	3.750	2,526,346



iusi

INTERNATIONAL UTILITY STRUCTURES INC.

Head Office
SUITE 1800, 777 – 8TH AVENUE S.W.
CALGARY, ALBERTA, CANADA T2P 3R5
TELEPHONE: (403) 269-2350 FAX: (403) 290-0523
TOLL FREE: 1-800-263-9444